

Message Text

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PAGE 01 OECD P 03782 01 OF 02 071638Z
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
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R 071632Z FEB 77
FM USMISSION OECD PARIS
TO SECSTATE WASH DC 5225
INFO ALL OECD CAPITALS 0687

LIMITED OFFICIAL USE SECTION 01 OF 02 OECD PARIS 03782

PASS E FOR UNDER SECRETARY DESIGNATE COOPER AND
TREASURY FOR UNDER SECRETARY DESIGNATE SOLOMON AND
ASSISTANT SECRETARY DESIGNATE BERGSTEN

E.O. 11652: N/A
TAGS: OECD, EFIN
SUBJECT: BUDGETARY HANDLING OF OECD FINANCIAL SUPPORT
FUND OBLIGATIONS

1. AS DISCUSSED DURING JAN. 29 BERGSTEN/KORP MEETING
WITH STEPHEN MARRIS (ECONOMIC ADVISER TO SECRETARY-
GENERAL), OECD SECRETARIAT HAS MADE A QUICK REVIEW OF
HOW FINANCIAL SUPPORT FUND (FSF) CONTRIBUTIONS ARE BEING
HANDLED FROM BUDGETARY POINT OF VIEW IN LEGISLATION
OF VARIOUS COUNTRIES. RESULTS OF THIS REVIEW ARE
SUMMARIZED IN FOLLOWING INFORMAL MEMORANDUM, DATED
FEBRUARY 7, WHICH WE HAVE RECEIVED FROM THE SECRETARIAT.

BEGIN TEXT

LEGISLATIVE MEASURES TO IMPLEMENT MEMBER COUNTRIES'
FINANCIAL OBLIGATIONS
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PAGE 02 OECD P 03782 01 OF 02 071638Z

THE SECRETARIAT OF THE OECD HAS ASKED THE 20 MEMBER
COUNTRIES WHICH HAVE ADOPTED LEGISLATION TO IMPLEMENT
THEIR OBLIGATIONS UNDER THE FINANCIAL SUPPORT FUND (FSF)
TO SUPPLY COPIES OF THIS LEGISLATION OR TO PROVIDE
INFORMATION CONCERNING IT, PARTICULARLY ON THE FOLLOWING
POINTS:

(A) THE FORM AND EXTENT OF THE PARLIAMENTARY
AUTHORISATION FOR THE COUNTRY'S PARTICIPATION IN THE
FINANCING OF LOANS BY THE FSF;

(B) THE BUDGETARY REQUIREMENTS CONCERNING SUCH
PARTICIPATION.

THE FOLLOWING SUMMARY IS BASED ON THE LEGISLATION AND
REPLIES RECEIVED FROM MOST OF THE COUNTRIES WITH
RELATIVELY LARGE QUOTAS. IT WILL BE COMPLETED, IF
NECESSARY, IN THE LIGHT OF FURTHER REPLIES.

DURING THE FSF NEGOTIATIONS THE UNITED STATES DECLARED
THAT IT INTENDED TO PARTICIPATE IN THE FINANCING OF THE
FUND MAINLY BY PROVIDING ITS GUARANTEE (INDIVIDUALLY OR
AS PART OF A COLLECTIVE GUARANTEE) FOR BORROWING BY THE
FUND. GERMANY EXCLUDED ALL DIRECT FINANCING,
DECLARING THAT IT WOULD PARTICIPATE SOLELY IN
THE FORM OF GUARANTEES; IT
DID NOT SEE ANY POSSIBILITY IN THE NEXT FEW YEARS OF
PROVIDING FINANCING THROUGH BUDGETARY APPROPRIATIONS,
THERE BEING VERY TIGHT LEGAL REQUIREMENTS CONCERNING A
BUDGET DEFICIT. ALL THE OTHER MEMBER COUNTRIES HAVE
OBTAINED, OR INTEND TO OBTAIN, AUTHORISATION FOR BOTH
DIRECT FINANCING AND GUARANTEES.

AS TO DIRECT FINANCING:

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PAGE 03 OECD P 03782 01 OF 02 071638Z

(A) ALL COUNTRIES HAVE OBTAINED THE NECESSARY
PARLIAMENTARY AUTHORISATION TO PROVIDE SUCH FINANCING
UP TO THE AMOUNT OF THE QUOTA - NO ADDITIONAL AUTHORISATIO
BEING REQUIRED BEFORE A SPECIFIC LOAN IS UNDERTAKEN.

(B) SOME COUNTRIES, LIKE BELGIUM, SIMPLY PROVIDE THAT
THE COUNTRY'S PARTICIPATION IS FINANCED BY THE CENTRAL
BANK, SO THAT WHEN IT IS MADE AVAILABLE NO BUDGETARY
APPROPRIATION IS REQUIRED. (THERE IS PROVISION FOR
REFINANCING BY THE TREASURY IN THE REMOTE EVENT OF
DEFAULT).

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PAGE 01 OECD P 03782 02 OF 02 071653Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 OECD PARIS 03782

(C) FRANCE PROVIDES THAT DIRECT FINANCING IS EFFECTIVELY FINANCED BY THE EXCHANGE STABILISATION FUND. IT IS DEBITED TO A SPECIAL ACCOUNT OF THE TREASURY AND THE CORRESPONDING CLAIM IS CREDITED TO THE EXCHANGE STABILISATION FUND. THUS, IT IS CONSIDERED TO BE SIMPLY A CHANGE IN THE FORM OF THE COUNTRY'S RESERVES, HAVING NO INCIDENCE ON THE BUDGET.

(D) JAPAN PROVIDES THAT THE DIRECT FINANCING IS FINANCED OUT OF THE SAME ACCOUNT AS THE EXCHANGE STABILISATION FUND, AND THE USE OF THIS ACCOUNT DOES NOT REQUIRE A BUDGET APPROPRIATION ALTHOUGH ANY USE OF IT IS REPORTED TO PARLIAMENT AT THE END OF THE FINANCIAL YEAR.

(E) OTHER COUNTRIES (AUSTRALIA, NETHERLANDS AND NEW ZEALAND) WILL INCLUDE THEIR SHARE IN DIRECT FINANCING IN THE GENERAL BUDGET ACCOUNT - UNDER THE AUTHORISATION GIVEN WHEN THE AGREEMENT IS RATIFIED.
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PAGE 02 OECD P 03782 02 OF 02 071653Z

AS TO GUARANTEES:

(A) ALL COUNTRIES HAVE OBTAINED AUTHORISATION TO PROVIDE GUARANTEES UP TO THE AMOUNT OF THE QUOTA - NO

FURTHER AUTHORISATION BY PARLIAMENT BEING REQUIRED
BEFORE A GUARANTEE IS GRANTED.

(B) IN NO CASE DOES A COUNTRY FORESEE THE NEED FOR A
BUDGETARY APPROPRIATION IN RESPECT OF A GUARANTEE,
EXCEPT IN THE REMOTE EVENT OF A DEFAULT.

(C) BUT, WHEN A GUARANTEE IS GRANTED, SOME COUNTRIES
INTEND TO ENTER A "PRO MEMORIA" ITEM IN A SPECIAL
SECTION OF THE BUDGET. THIS WOULD NOT BE INCLUDED IN
THE GENERAL BUDGET ACCOUNT SINCE IT IS EXTREMELY UNLIKELY
THAT ANY BUDGETARY CONTRIBUTION WOULD EVER BE REQUIRED,
AND IT IS NOT CONSIDERED FEASIBLE OR DESIRABLE TO MAKE
AN ASSESSMENT OF THE RISK.

SINCE GERMANY WILL PROVIDE GUARANTEES ONLY, ITS
LEGISLATION IS OF PARTICULAR INTEREST. IT TAKES THE
FORM OF A LAW, PROMULGATED ON 22ND APRIL, 1976, WHICH
HAS FOUR SHORT ARTICLES. ARTICLE 1 RATIFIES THE FSF.
ARTICLE 2 READS:

"THE FEDERAL MINISTER OF FINANCE IS AUTHORISED TO UNDER-
TAKE, IN ACCORDANCE WITH THE TERMS OF THE AGREEMENT,
SURETIES, GUARANTEES OR OTHER COMMITMENTS FOR CREDITS
INCLUDING INTEREST AND OTHER COSTS UP TO AN AMOUNT OF
2,500 MILLION SPECIAL DRAWING RIGHTS."

ARTICLES 3 AND 4 DEAL WITH PROCEDURE. THE EXPLANATORY
NOTES CONCERNING ARTICLE 2 STATE:

"THE FEDERAL REPUBLIC WILL PARTICIPATE IN FINANCING IN
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PAGE 03 OECD P 03782 02 OF 02 071653Z

THE CONTEXT OF THE AGREEMENT SOLELY IN THE FORM OF
GUARANTEES. APPROPRIATIONS OR COMMITMENT AUTHORISATIONS
IN THE BUDGET ARE THEREFORE FOR THE TIME BEING
NEITHER NECESSARY NOR FORESEEN."

AND THE FINAL REMARKS REFER TO THE REMOTE POSSIBILITY OF
BUDGETARY INCIDENCE IN THE EVENT OF A DEFAULT:

"THE AGREEMENT LAW CAN LEAD TO POSSIBLE OBLIGATIONS
AFFECTING THE FEDERAL BUDGET. IT IS NOT POSSIBLE TO
ASSESS WHETHER, AND TO WHAT EXTENT, EXPENDITURES IN
THIS CONTEXT WILL HAVE TO BE MADE."

WHETHER OR NOT THERE IS AN INCIDENCE ON THE BUDGET IT
IS THE GENERAL PRACTICE OF THE FINANCE MINISTERS OF
THESE COUNTRIES TO KEEP THE RELEVANT PARLIAMENTARY
COMMITTEES INFORMED OF EXTERNAL LOAN OPERATIONS.

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